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Patent or trade secret?

In protecting technology, one size does not fit all

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Generally, entrepreneurs start companies based on new technologies. The question of how best to protect these technologies is more important than ever in a tight economy.

Some technologies can be maintained in secret, such as the process for polarizing certain molecules or the precise formula for a soft drink. No one can learn the technology by buying the resulting product. Other technologies, such as the precise structure of a machine tool, cannot be kept secret, since the structure can easily be "reverse-engineered" by anyone who buys one of the machine tools.

If a new technology cannot be kept secret, it should be patented. If it can be kept secret, it may be protected as a trade secret or it may be patented.

The New Hampshire version of the Uniform Trade Secrets Act defines trade secrets as "information including a formula, pattern, compilation, program, device, method, technique or a process that: (a) derives independent economic value ... from not being generally known ... and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

Alternatively, the Patent Act provides for the grant of a patent on any "new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof."

A decision on whether to protect an eligible invention as a trade secret or to patent it is an important decision that involves balancing the advantages and disadvantages of each course of action. Moreover, it is a decision that cannot be delayed. The Patent Act bars the grant of a patent on any invention that has been publicly disclosed or on sale for more than one year.

Generally, the public interest is better served through the patenting of technology. Patents require the public disclosure of the best mode for practicing the technology with the goal of promoting a flow of ideas on which other inventors can build. A trade secret on the other hand is, of course, secret and not available to other inventors.

With respect to the private interest of an entrepreneur, a number of factors are relevant. A patent grants the patent holder a monopoly for 20 years. However, at the end of the 20 years, anyone can practice the technology. A trade secret, on the other hand, has an indefinite life so long as the technology has economic value and reasonable steps are taken to keep it a secret. These steps would generally include limiting knowledge of the trade secret to a few employees and requiring anyone with knowledge of the trade secret to execute a non-disclosure agreement.

Thus, once a patent is obtained, no further steps, other than paying periodic maintenance fees, are required, but there are continuing duties with respect to maintaining trade secrets. **A matter of cost**
The apparent advantage of the continuing life of a trade secret is balanced by the practical issue described by the old saying that a secret remains a secret only so long as one person knows it. If a trade secret becomes known by a number of employees, sooner or later — usually sooner — one of the employees will become disgruntled and leave or be terminated.

The former employee may then decide to disclose the trade secret as retribution against his former employer. The company may have rights under a non-disclosure agreement against the former employee. However, the former employee generally is judgment-proof, and once the trade secret is publicly disclosed it is no longer a trade secret and anyone can practice the technology.

The cost of protecting technology as a trade secret does not involve a large up-front cost, but the up-front costs of obtaining a patent are significant. A U.S. patent costs approximately \$10,000 for the drafting and initial filing of the patent application. The costs may increase significantly when it becomes necessary to respond to

comments by a patent examiner.

Moreover, in order to protect the patent in other countries, patent applications must be filed in those countries. These filings result in significant additional costs, although these costs may be mitigated by use of filings under the Patent Cooperation Treaty.

A patent also requires the public disclosure of the best mode of practicing the technology. Many entrepreneurs feel that this disclosure makes it easier to “design around” the patent and achieve comparable results without infringing the patent. Maintaining a technology as a trade secret does not give competitors any such head start in trying to achieve comparable results.

A lesser-known advantage of patents is that they clearly define the rights of the individual inventors with respect to each other and with respect to the company employing them. These clearly defined rights can be valued and sold. Trade secrets, on the other hand, cannot easily be defined and the company does not have a good handle on their value or the ability to sell them.

An additional advantage for patenting technology is improved employee relations. When an employee signs the oath and assigns the patent to the employer, the employee usually gets a bonus, which is both psychological and financial. Most employers do not have any such procedure for trade secrets.

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